

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 PA-02 PRS-01 HEW-06

NSC-05 SS-15 STR-04 CEA-01 /099 W

----- 098456

R 280403Z JAN 76

FM AMEMBASSY WELLINGTON

TO SECSTATE WASHDC 789

INFO AMEMBASSY CANBERRA

UNCLAS WELLINGTON 0310

E.O. 11652: N/A

TAGS: ECON, EGEN, NZ

SUBJECT: GOVERNMENT ANNOUNCES 9 CENTS PER HOUR GENERAL WAGE INCREASE

REF WELLINGTON 0153

1. ON JANUARY 26 PRIME MINISTER MULDOON ANNOUNCED A GENERAL WAGE ORDER INCREASE OF 9 CENTS PER HOUR. THIS AMOUNTS TO \$3.60 FOR A 40-HOUR WEEK. THE INCREASE APPLIES TO THE BASIC RATE OF PAY IN AWARDS AND COLLECTIVE AGREEMENTS. A COMPARABLE INCREASE OF 3.4 PER CENT FOR PIECE RATES WILL ALSO BE MADE. THE INCREASES WILL BECOME EFFECTIVE JANUARY 27.

2. SOCIAL SECURITY BENEFITS WILL INCREASE \$4.06 PER WEEK FOR COUPLES AND \$2.45 FOR SINGLE PERSONS.

3. THE FORMULA OF A STRAIGHT 9 CENTS HOURLY INCREASE MEANS THE LOWER PAID WORKERS WILL RECEIVE PERCENTAGE WISE LARGER COST-OF-LIVING INCREASES. A WORKER EARNING THE MINIMUM ADULT RATE OF \$80 PER WEEK WOULD GET A 4.5 PER CENT INCREASE WHEREAS FOR THOSE IN UPPER INCOME BRACKETS THE INCREASE WOULD BE NEGLIGIBLE. SOCIAL SECURITY BENEFICIARIES ON THE OTHER HAND WILL RECEIVE NEARLY

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AN 8 PER CENT INCREASE. TOTAL COST OF THE INCREASE TO

THE NATIONAL WAGE BILL WILL BE ABOUT \$210 MILLION BEFORE TAX.

4. EMPLOYER SPOKESMEN'S STATEMENTS GENERALLY INDICATE THEY ARE QUITE SATISFIED WITH THE WAGE ORDER. THE NATIONAL GOVERNMENT HAS INDICATED THAT IT WILL FURTHER ALTER THE WAGE-FIXING REGULATIONS BEFORE THE NEXT ADJUSTMENT FALLS DUE IN JULY. LABOR LEADERS WHO STILL BELIEVE IN THE PRINCIPLE OF INDEXATION HAVE INDICATED THEIR WISH TO HAVE THE GOVERNMENT DO AWAY WITH WAGE ADJUSTMENT REGULATIONS AND PERMIT A RETURN TO FREE-BARGAINING. MULDOON, IN STRESSING THAT THE ECONOMIC WOES OF THE COUNTRY ARE FAR FROM OVER HAS INDICATED THAT HE DOES NOT BELIEVE THERE CAN BE A RETURN TO FREE BARGAINING FOR SOME TIME TO COME.

5. COMMENT: THIS FIRST WAGE ORDER BY THE NEW NATIONAL GOVERNMENT IS A FURTHER STEP IN ITS ACTION TO ATTACK NEW ZEALAND'S GRAVE ECONOMIC PROBLEMS (SEE WELLINGTON 75 3796, 75 3855 AND 75 3898 FOR EARLIER MOVES). IN ANNOUNCING THIS WAGE INCREASE FAVORING MORE THE LOWER WAGE EARNER, THE GOVERNMENT IN EFFECT FURTHER MODIFIED THE FORMULA ESTABLISHED IN THE EARLIER PART OF THE LABOUR GOVERNMENT ADMINISTRATIN OF AN ACROSS-THE-BOARD PERCENTAGE INCREASE TIED TO THE RISE IN THE COST-OF-LIVING. IT WAS UNDOUBTEDLY DESIGNED TO TAKE SOME OF THE WIND OUT OF THE SAILS OF LABOR LEADERS WHO HAD BEEN TRUPING FOR A PERCENTAGE INCREASE RANGING FROM 8.7 TO 12 PER CENT FOR ALL WORKERS. IT DID HELP MORE THOSE WAGE EARNERS MOST AFFECTED BY RISING PRICES. AS THE SSAME TIME IT AIMED AT, IF NOT BREAKING THE ASCENDING SPIRAL OF WAGES CHASING PRICES, AT LEAST WEAKENING IT CONSIDERABLY. THE DEGREE TO WHICH THIS SLIDING PERCENTAGE FORMULA WILL SUCCEED IN AVOIDING LABOR UNREST IS NOT YET CLEAR. INITIAL STATEMENTS OF SUCH LEADERS AS FOL PRESIDENT SIR TOM SKINNER, WHILE EXPRESSING DISAGREEMENT AND DISAPPOINTMENT WITH THE INCREASE, DID NOT SPEAK OF ORGANIZING WORKER DEMONSTRATIONS OR STOPPAGES. THIS WOULD GIVE HOPE THAT ANY LARGE SCALE OR GENERAL LABOR UNREST MIGHT BE AVOIDED. SOME MORE MILITANT LABOR GROUPINGS, HOWEVER, MIGHT ATTEMPT STOPPAGES. MEETINGS OF WORKERS HAVE BEEN CALLED TO DISCUSS THE GOVERNMENT'S ACTION.

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6. THE IMPORTANT LONG RANGE EFFECT OF THIS MOVE, IF IT SUCCEEDS, WILL BE TO GET AWAY FROM THE CATASTROPHIC POLICY ESTABLISHED UNDER THE LABOUR GOVERNMENT OF TYING WAGE INCREASES DIRECTLY TO COST-OF-LIVING INCREASES WITH NO REGARD TO INCREASES (OR DECREASES) IN PRODUCTIVITY. (IN 1975 GNP GROWTH WAS NEGATIVE WHILE INFLATION WAS 15.7 PER CENT.) THOUGH THE LABOUR GOVERNMENT SEEMED EVENTUALLY

TO REALIZE THE ERROR IN ITS WAGE ORDER POLICY AND IN
1975 MODIFIED THE FORMULA, IT NEVER ACTUALLY ABANDONED
THE CONCEPT. THE INCLUSION OF PRODUCTIVITY GROWTH BY THE NATIONAL
GOVT. AS A FACTOR IN CALCULATING WAGE INCREASES, IN EFFECT
ACKNOWLEDGES THE VALIDITY OF THE GROWING COMPLAINT OF PRIVATE FIRMS
THAT THEIR RISING WAGE BILL (ALONG WITH OTHER INCREASED
OPERATING COSTS COUPLED WITH PRICE CONTROLS) HAD
SERIOUSLY REDUCED IF NOT ELIMINATED PROFITS NEEDED FOR
INVESTMENT.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CENTRAL GOVERNMENT, WAGE RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 28 JAN 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976WELLIN00310
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760035-0479
From: WELLINGTON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760111/aaaaajul.tel
Line Count: 125
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 76 WELLINGTON 153
Review Action: RELEASED, APPROVED
Review Authority: hattaycs
Review Comment: n/a
Review Content Flags:
Review Date: 30 JUN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <30 JUN 2004 by schwenja>; APPROVED <28 JUL 2004 by hattaycs>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOVERNMENT ANNOUNCES 9 CENTS PER HOUR GENERAL WAGE INCREASE
TAGS: ECON, EGEN, NZ, (MULDOON, ROB)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006